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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX I**

of the Commission Implementing Decision on the individual measure in favour of Palestine<sup>1</sup> for 2021-2023

**Action Document for PEGASE<sup>2</sup>: Direct Financial Support to Recurrent Expenditures of the  
Palestinian Authority 2021**

**MEASURE**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and individual measure in the sense of Article 23(3) of NDICI-Global Europe Regulation.

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>1. Title CRIS/OPSYS Basic Act</b>	PEGASE: Direct Financial Support to Recurrent Expenditures of the Palestinian Authority 2021 Measure in favour of Palestine for 2021-2023 OPSYS REFERENCE : NDICI-GEO-NEAR/2022/ACT-60627-JAD.959253 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe).
<b>2. Team Europe Initiative</b>	No
<b>3. Zone benefiting from the action</b>	The action shall be carried out in Palestine.
<b>4. Programming document</b>	European Joint Strategy in support of Palestine 2021-2024 – Under preparation – to be adopted as soon as possible
<b>5. Link with relevant MIP(s) objectives/expected results</b>	Under preparation
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	150, Government and Civil Society; 160, Other Social Infrastructure and Services; 120, Health; 110, Education

<sup>1</sup> This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

<sup>2</sup> PEGASE stands for Mécanisme Palestino - Européen de Gestion et d'Aide Socio-Économique.

<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG 1.2 No Poverty Other significant SDGs: SDG 1.3 on social protection; SDG 3.8 on universal health coverage; SDG4 on education; SDG6 on water; SDG7 on energy; SDG 16.6, supporting the setting up of strong institutions at all levels			
<b>8 a) DAC code(s)</b>	Main DAC code – 15110 – Public sector policy and administrative management 50 % Sub-code 1 – 16010 - Social protection 40 % Sub-code 2 – 12191 - Medical services 10 %			
<b>8 b) Main Delivery Channel</b>	Recipient Government – 12000			
<b>9. Targets</b>	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <sup>3</sup> <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>11. Internal markers</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

<sup>3</sup> For the Neighbourhood, activities related to education shall be marked as part of the “Social Inclusion and Human Development” target, in line with the NDICI-GE programming guidelines.

	Tags: digital connectivity digital governance digital entrepreneurship job creation digital skills/literacy digital services		<input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	<u>Connectivity</u> Tags: transport people2people energy digital connectivity	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>12. Amounts concerned</b>	Budget line BGUE-B2022-14.020110-C2-NEAR Total estimated cost: EUR 145 350 000 Total amount of EU budget contribution EUR 145 350 000			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>13. Implementation modalities (type of financing and management mode)</b>	Project Modality  <b>Direct management</b> through: - Grants - Twinning grants - PEGASE Direct Financial Support - Procurement  <b>Indirect management</b> with UNOPS (cf section 4.3.4)			

## 1.2. Summary of the Action

The **PEGASE programme** aims at contributing to democratic governance, effective and accountable institutions as well as improved well-being of the Palestinian population. The specific objectives are: (1) improved access to social public services for all; (2) improved inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting. The action's objectives and policy related outputs (indirect outputs) are underpinned by the following direct outputs: eased financing for social public services; enhanced administrative and technical capacity of the Palestinian Authority (PA) institutions; improved coordination with government, development partners and Civil Society Organisations (CSOs) for enhanced policy dialogue at global and sector level; public oversight towards reforms implementation.

The overall contribution of the EU amounts to EUR 145 350 000. Key components of this Action are: a contribution to the payments of the salaries and pensions of civil servants (Civil Servants and Pensioners, CSP, EUR 55 million), part of which is conditioned upon the fulfilment of the defined targets related to the agreed reforms in the areas of Public Finance Management (PFM), governance incl. water and energy; a contribution to the social allowances to vulnerable families (cash transfers programme – CTP, EUR 40 million standard contribution); and a contribution to the payment for the referrals to the East Jerusalem Hospitals (EJH, EUR 13 million). In view of the needs arising from the COVID-19 pandemic the **EU accords exceptionally an additional EUR 20 million to contribute to the purchase of European Medicines Agency (EMA) authorized COVID-19 vaccines. EUR 10 million from the Food and Resilience Facility will be added to the CTP component which will therefore amount to EUR 50 million in total.** This additional support will aim to address the consequences of rising prices of food and commodities in Palestine, thus helping mitigate the impact of Russia's war against Ukraine.

The present Action Document (AD) introduces **some elements of innovation compared to past PEGASE programmes**, such as a.) a more stringent governance system to enhance policy dialogue and monitoring of implementation through the setting up of a dedicated Steering Committee, b.) a more solid assessment of the reform process and its achievements through a system of external oversight, and c.) strengthening the synergies with complementary capacity development activities.

**Pegase's exceptionally strong safeguard system of controls will be maintained.**

## 2. RATIONALE

### 2.1. Context

Occupied Palestinian territory (oPt) is home to 5 million people, of which 3 million in the West Bank (including East Jerusalem) and 2 million in the Gaza Strip. In addition, more than 620,000 Israeli settlers live in the West Bank. 40% of Palestinians living in the oPt are refugees, but they amount to 70% in the Gaza Strip (Palestinian Central Bureau of Statistics - PCBS). 47% of the population is under 17 years old and 71% of the population is younger than 30. In 2017 - latest year with available data - the poverty rates trend worsened in Gaza to 53% compared to 38.9% in 2011 while they improved in the West Bank, reaching 13.9% compared to 17.6% in 2011. Though a proper poverty assessment has not taken place yet, the situation is likely to have worsened as consequence of the COVID-19 pandemic. In terms of Human Development Index, oPt was ranked 115<sup>th</sup> out of 189 in 2020, in the medium category. Unemployment was at 24% in the fourth quarter of 2019, 13.7% in the West Bank and 42.7% in Gaza. It is particularly pronounced among youth (18-29 years), for which it reached 45% (36% among males and 70% among females). This high and increasing level can be ascribed to a large extent to the negative impact of the occupation that has resulted in an impaired Palestinian private sector, a dampened investment atmosphere and de-development of many sectors of the economy.

The institutional governance and human rights situation is worsening. Gender equality remains a challenge. According to PCBS, in 2017 15% of Palestinian women were married before the age of 18. Traditionally, unemployment affects women disproportionately. There is a major gender discrepancy in the labour force participation rate with a 69.9% for males and only 18.1% for females. Women, including adolescent girls, are identified as the most structural disadvantaged group by the UN vulnerability assessment and the Ministry of Social Development (MoSD) social development sector strategy 2021-2024.

Since 2017, the rule of law in the West Bank has deteriorated, with infringements on individual freedoms and rights, independence, integrity and transparency of the justice system. In Gaza, a separate system of administration of justice and legislative initiative exists since 2007. It has resulted in the development of parallel legal frameworks and avenues to access justice. There are serious concerns regarding the respect for fundamental rights on the part of the three duty-bearers - Israel as the occupying power, the Palestinian

Authority, mostly, but not only, in West Bank, the de facto authorities in Gaza - although to a varying extent. With concern to democracy and free and fair elections, national elections in the oPt are long overdue, due to the national divide since the take-over of the Gaza Strip by Hamas in 2007.

The macro-fiscal situation has been particularly difficult in the oPt during 2019-2020. The economic and fiscal crisis has been compounded by slow economic output in 2019, prolonged clearance revenue standoff, and COVID-19 pandemic in 2020. The real GDP has shrunk by an estimated 11.6% compared to 2019 while the budget deficit reached about 3.9% of GDP with a financing gap close to USD 585 million. Although actual revenue exceeded planned revenues by some 42%, budget implementation has been weak, witnessing a decrease by almost 20% of expenditures. The salaries and social allowance payments were temporarily reduced by more than a half during May-November 2020, but payments caught up in December 2020. Consequently, the Palestinian Authority continued resorting to accumulation of arrears and borrowing from domestic banks and the Arab financial institutions, with a public debt reaching 22.8% of GDP (USD 3.4 billion), with the accumulation of arrears continuing in 2021, facing the absence of budget support, notably from Arab donors, the effects of slowly growing economy, the start of deductions in clearance revenues by Israel.

Under the Government Effectiveness Index of the World Bank, in 2019 the oPt rank scored a 23.08 over 100, significantly worse than in 2017 when it scored 36.54. The level of inclusiveness in policy making is modest, with the Voice and Accountability index at levels of 21.18 in 2019. The oPt is still dependent on donors' support, with a decreasing level of net ODA representing 3% of the GDP in 2020. The unpredictable nature of the flow of revenues collected on behalf of the Palestinian Authority by the Israeli authorities (65-70% of domestic revenue), and the decline of donor support (budget support represented 42% of total public expenditures in 2010, compared to 9.2% in 2020) create additional constraints.

The occupied territory is the scene of violent conflict at all times to varying degrees. Restricted freedom of movement, the excessive use of force by Israel and the Israeli closure of the Gaza strip are lead drivers of conflict. Other drivers include significant violations of human rights on the side of both the Palestinian Authority and the de facto authority: political prisoners; arbitrary or unlawful interference with privacy; restrictions on free expression, the press, and the internet, including violence, threats of violence, unjustified arrests and prosecutions against journalists, censorship, and site blocking; substantial interference with the rights of peaceful assembly and freedom of association, including harassment of non-governmental organisations (NGOs); acts of corruption, the decision of the Palestinian Authority to indefinitely postpone the elections of May 2021. Climate change is regarded as a future potential driver of conflict. Events in East Jerusalem in 2021 can also be considered as triggers of conflict which played a role in the escalation of the conflict between Gaza and Israel in May.

The proposed action will contribute to the implementation of the upcoming joint programming document for the period 2021-2024 to be adopted as soon as possible, which will represent a joint response to the Palestinian *National Development Plan 2021-2023* (NDP). Below is a short analysis of the strategies relevant to this Action.

#### *Public Administration Reform (PAR)*

Planning responsibilities were transferred from the Ministry of Finance (MoF) to the Prime Minister Office (PMO) with the formation of the new Government in 2019. The PMO is currently responsible for strategic policy formulation, coordination and planning, though in the absence of a dedicate sector strategy.

#### *Public Financial Management*

The PFM strategy 2017–2022 had been set to provide the Palestinian Authority with a framework for reforms contributing to enhanced fiscal discipline, improved allocative function of the government and efficiency in the provision of essential public services. It was also expected to support achieving the Palestinian Authority's fiscal objectives through improved budgetary principles, policies and processes. A revised PFM Strategy for 2021-2023 was approved in September 2020, building on the key constraints and weaknesses identified in the Public Expenditure and Financial Accountability (PEFA) assessment, disseminated in January 2020. The

revised strategy focuses on promoting programme-based and gender-responsive budgeting; enhanced commitment management system, accounting and internal and external controls and audit practices; and efficient, effective and fair management of public revenues. Besides, it addresses two key fiscal issues: health referrals and net lending in relation to local authorities. Overall, the updated PFM Strategy is intended to pave the way for future reforms and development partners' support.

### *Social protection*

In the social protection sector, multi-dimensional poverty reduction and service delivery focusing on the most disadvantaged population are at the core of the Social Development Sector Strategy 2017-2022, which was revised and extended until 2023. It proposes a Rights-Based Approach to social development ensuring that the rights of the most vulnerable are respected and protected, in particular women, children, the elderly and persons with disabilities. The revised strategy is taking into account the social impacts of COVID-19 and is proposing a more shock responsive approach to social protection.

### *Health*

In the health sector, Universal Health Coverage (UHC) is set at the core of the National Health Sectoral Strategy 2017-2022, which was revised and extended till 2023 taking into consideration the emerging needs of COVID-19 with focus on high risk groups and vulnerable population. The fiscal sustainability of the health care system including reformed national health insurance are recognized by the NDP as priority interventions for achieving “Quality Health Care for All”, while the Ministry of Health (MoH) continues to pursue the nationalisation of health services in order to reduce medical referrals’ costs, which continues to add financial burdens on the health system. The oPt is eligible for the COVAX AMC-92 support and will receive funding to vaccinate up to 20% of the population. Priority is given to health and social workers followed by people aged 60 and above and those with co-morbidities. In addition, the Palestinian Authority has placed a request for additional doses through COVAX to cover the remaining 40% of the population above the age of 16; also, the Palestinian Authority has approached vaccines suppliers for direct procurement of vaccines.

### *Governance - Education*

In the education sector, the Education Sector Strategic Plan (ESSP) 2017-2022 was revised in August 2020 and extended until 2023. The Plan aims at developing the Palestinian education system into a modern, dynamic, student-centred learning environment based on sound educational assessment systems, skills and competencies transfer, diversified methods of learning and teaching and a results-based educational management. The EU has funded a study of Palestinian textbooks that reveals a complex picture.<sup>4</sup> The EU will step up its engagement with the Palestinian Authority (PA) with the aim to ensure curriculum reform is addressed in the shortest possible timeframe. The EU has agreed with the PA to set out a specific roadmap for this work, which must include a commitment on a comprehensive policy dialogue on curriculum development and textbook review. The roadmap, to be agreed with the PA, will also establish an objective and credible process of screening and monitoring of educational material of which the PA will be fully responsible, to ensure full adherence to UNESCO standards.

### *Water*

In the water sector, the lack of sufficient infrastructures and effective water resource management have led to a severe water shortage. With support of donors, the Palestinian Authority has adopted the Water Law in 2014 setting four pillars for the reform: (i) separating policy and regulation through the establishment of an autonomous regulator; (ii) clustering of service providers; (iii) establishing a National Water Company as bulk water supplier and (iv) developing Water Users Associations responsible for the sustainable management of irrigation water.

### *Energy*

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<sup>4</sup> <http://www.gei.de/en/departments/knowledge-in-transition/analysis-of-palestinian-textbooks-paltex.html>

In the energy sector, developing access to available, sustainable and affordable electricity is the priority of the government. The electricity sector has undergone several institutional reforms, which still require further consolidation. The priority for the coming years are (i) to increase renewable energy capacity to provide and meet Palestinian energy needs, notably through engagement with private sector; (ii) develop a reliable electricity grid with functioning interconnection points, notably through infrastructures investments and agreement with external partners; and (iii) reinforce effective and efficient institutions and operators in the energy sector, notably the Palestinian Energy and Natural Resources Authority (PENRA), the Palestinian Electricity Regulatory Council (PERC) and the Palestine Electricity Transmission Line Company (PETL) as well as utilities and future entities in charge of hydrocarbon.

The proposed action is in line with the EU commitments under the New European Consensus on Development (2017) for the implementation of the 2030 Agenda for Sustainable Development.

The action is also fully in line with the Council Conclusions on the Middle East Peace Process (18 January 2016): “The EU will continue its support to Palestinian aspirations for Statehood. It is of the utmost importance that the positive results of the past are not lost and Palestinian institutions must continue to grow stronger, more transparent, more accountable and more democratic.”<sup>5</sup>

Finally, the action also aims at addressing some elements of the new Commission vision in relation to the digital transformation, especially through the work on public administration reform and the Green Deal, through specific performance indicators related to water and energy, but also by addressing potentially green budgeting issues.

Other European development partners have been providing complementary support in the fields of education and health, based on the European Joint Strategy 2017-2020 division of labour<sup>6</sup>. Other partners (notably World Bank (WB), United Kingdom (UK), UNICEF, World Food Programme (WFP), International Labour Organisation (ILO), World Health Organisation (WHO), etc.), the Organisation for Economic Cooperation and Development (OECD) also deploy complementary support in the areas of intervention of PEGASE, sometimes with funding through PEGASE (on PFM, PAR and social protection).

The PEGASE direct financial support (DFS) programme is also at the centre of the humanitarian-development-peace nexus approach, and instrumental to its implementation, in line with current discussions that are taking place locally with other development partners, civil society and the Palestinian Authority.

## **2.2. Problem Analysis**

### **PRIORITY #1: Support nascent public administration**

In the public administration sector, the Palestinian Authority lacks a comprehensive public administration strategic framework for coherently developing the different public administration areas and there is no active public body fully responsible for planning and development. The main issues are related to limited and inefficiently allocated resources and institutional governance to deliver on public policies; limited inclusiveness, effectiveness and efficiency in public policy making, also due to the lack of Parliament; limited involvement of civil society in decision making processes; limited transparency and accountability, insufficient coordination at the centre of government and poor monitoring and evaluation of public policies.

### **PRIORITY #2: Tackle budget and fiscal constraints**

The context in which the Palestinian Authority develops and implements its budget is sensitive as the political situation provides no certainty that the macro-fiscal estimates and fiscal flows will prove to be reliable, predictable and stable. The situation is exacerbated by the absence of fiscal sovereignty and the high dependence on the Israeli economy. Exposure to discretionary measures by the Israeli authorities, like

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<sup>5</sup> <https://www.consilium.europa.eu/en/press/press-releases/2016/01/18/fac-conclusions-mepp/>

<sup>6</sup> [https://ec.europa.eu/neighbourhood-enlargement/system/files/2019-01/european\\_joint\\_strategy\\_in\\_support\\_of\\_palestine\\_2017-2020.pdf](https://ec.europa.eu/neighbourhood-enlargement/system/files/2019-01/european_joint_strategy_in_support_of_palestine_2017-2020.pdf)

deductions for payments of allowances to the families of Palestinian prisoners in Israeli prisons, ex-prisoners and families of those deceased, as well as the sources of the fiscal leakages, have compounded the challenges faced by the Palestinian Authority in collecting revenues, controlling its sources, and have resulted in significant revenue losses.

The PFM systems are not robust enough to respond to these challenges despite reform efforts undertaken in recent years. This concerns the budgetary cycle in all its dimensions, including transparency, the procurement systems, the financial controls, the access to information.

#### **PRIORITY #3: Foster institutional capacity for implementing social protection sector policy reforms**

Limited capacity and resources of the Ministry of Social Development to implement the Social Development Sector Strategy and pursue agreed policy reforms. The allocated annual budget to pay the social allowances is erratic and not covering the entitlements of the 115,000 families registered in the CTP database, let alone the 100,000 newly registered families during the COVID-19 crisis in 2020. Moreover, though the Ministry of Social Development is progressing along the social protection floors with the revised Law for the protection of People with Disability and new Law for Elderly, it has limited financial resources to operationalise the reforms. Furthermore, the increase of prices of food and commodities in Palestine, due to the impact of Russia's war against Ukraine, has created additional protection needs.

#### **PRIORITY #4: Improve institutional capacity for implementing health sector policy reforms**

The health financing system has been dependent on donor funding, which is unpredictable and not sustainable. The main two sources of public funding for health care are: i) the Government Health Insurance scheme, which is fragmented and operating at a financial gap between revenues and public expenditures on health, and ii) the general taxes raised by the Ministry of Finance that are regressive; they both hinder the financial sustainability of the health system. Health financing is marked by high level of out-of-pocket expenditures reaching 45.5% of total health expenditures<sup>7</sup>, with a large proportion of the population not covered by any insurance scheme. One of the major issues is represented by the high cost of medical referrals, accounting for 40% of health expenditures, which continues to add financial burdens on the health system, contributing to a substantial debt and regular arrears vis-à-vis the East Jerusalem Hospitals.

Moreover, the COVID-19 pandemic has created stress on the health sector, resulting in a negative impact on the health, social and economic conditions of the population. The Palestinian Ministry of Health has released the National Deployment and Vaccination Plan on 26 January 2021 to organize the distribution of COVID-19 vaccines in the West Bank and Gaza and ensure that all the population has access to the vaccines and is ready to accept them.

#### **PRIORITY #5: Support governance reform in the Education sector**

The ambitious education strategy faces challenges particularly at the level of educational governance and management. It will have to be ensured that the development of curricula lives up to the strategy's stated objective of integrating human rights concepts as well as all elements of SDG 4.7 (Ensuring that all learners acquire the knowledge and skills necessary to support sustainable development, including, inter alia [...] promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity). The compliance of education material with UNESCO standards of peace, tolerance, coexistence, and non-violence is a must.

#### **PRIORITY #6: Support progress in the reform process in the Water sector**

While important investments are made by the Palestinian Authority and donors in the sector of water, their sustainability is jeopardised by the narrow progress observed in the reform process. In this area, limited progress in the ambitious reforms are observed despite a joint support and response by donors.

#### **PRIORITY #7: Support progress in the reform process in the Energy sector**

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<sup>7</sup> World Bank, Palestine Health System Financing, February 2019.



The National Energy Strategy sets ambitious targets notably in the control of losses (necessary to ensure financial viability of the sector) and the development of Renewable energies, but a lack of dedicated financial resources impedes their achievements.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

**PRIORITY #1: Support nascent public administration**

The Prime Minister Office (PMO) has the main responsibility for aid coordination, planning and functioning of the public administration.

In Public Administration Reform (PAR), together with the PMO, the Cabinet Secretariat and the General Personnel Council (GPC) are the main stakeholders.

**PRIORITY #2: Tackle budget and fiscal constraints**

The Ministry of Finance is the line ministry in charge of implementing the PFM strategy. The Ministry is responsible for all PEGASE payments execution. The other relevant actors are the State Audit Administrative Control Bureau (SAACB), the High Council for Public Procurement Policies (HCPPP), the Palestinian Anti-Corruption Commission (PACC). The Civil Society Team for Enhancing Public Budget Transparency (CSTEPBT), representing 35 Palestinian CSOs and led by AMAN Transparency Palestine, which plays an increasingly vocal role in area of public sector integrity and transparency of public funds as well as participatory policy making and budgeting.

**PRIORITY #3: Foster institutional capacity for implementing social protection sector policy reforms**

The main stakeholder is the Ministry of Social Development, which manages the Palestinian Authority's cash transfer programme. Despite scarce financial resources, the Ministry of Social Development is a dynamic institution initiating relevant policy reforms along the international agreed upon Social Protection Floors principles.

**PRIORITY #4: Improve institutional capacity for implementing health sector policy reforms**

The Ministry of Health is the main stakeholder, together with the six East Jerusalem Hospitals. The Ministry is responsible for setting and implementing the health strategy, and should play a key role in the proposed reforms, as well as for the setting and implementation of the COVID-19 vaccination plan. The EJs (Augusta Victoria, St. Joseph, St. John, Al-Makassed, Jerusalem Princess Bassma Centre, Red Crescent Society) serve as the main centres for specialized care within the Palestinian health system. Patients needing services and procedures that are not available in the West Bank and Gaza are referred by the Ministry of Health for treatment in the East Jerusalem Hospitals. The hospitals are legally independent from the PA, to which they are linked exclusively through contractual agreements.

**PRIORITY #5 Support governance reform in the Education sector**

The Ministry of Education (MoE) is the main stakeholder. The MoE is well resourced. It is mandated with drafting, rolling out and monitoring the education strategy and will play a key role in any reform proposed. The Palestinian Curriculum Development Centre is part of the MoE.

**PRIORITY #6: Support progress in the reform process in the Water sector**

The Palestinian Water Authority (PWA) is the leading institution dealing with policy and reforms. The water authority is working to manage, develop and protect water sources with integrated and sustainable water supply to citizens valid for different uses and ensure the protection of the environment and the achievement of the development goals for Palestinian society.

**PRIORITY #7: Support progress in the reform process in the Energy sector**

PENRA is responsible for supervising and monitoring the generation, transmission and distribution of energy. It is in charge of the definition and implementation of the National Energy Strategy and the sector reform. All involved institutions present challenges in terms of capacities, with a critical aspect represented by the inter-institutional coordination.

### 3. DESCRIPTION OF THE ACTION

#### 3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to contribute to democratic governance, effective and accountable institutions as well as improved well-being of the Palestinian population.

The Specific(s) Objective(s) (Outcomes) of this action are

1. Improved access to social public services for all;
2. Improved inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting.

The **Induced Outputs** represent the reforms sought, expected to be generated as effect of the expected outputs, and express a change in terms of behaviour of the public administration at large, as promoted through the long-term PEGASE support, thus contributing to the corresponding Specific Objectives (Outcomes). They are the following:

- 1.1) Contributing to Outcome 1: Timely and regular payments of salaries and pensions, social allowances and referrals costs to East Jerusalem Hospitals are made by the Palestinian Authority;
- 2.1) Contributing to Outcome 2: Strengthened PFM systems and sector budgeting;
- 2.2) Contributing to Outcome 2: Strengthened organisation/functions of public service sector;
- 2.3) Contributing to Outcome 2: Improved public service delivery;
- 2.4) Contributing to Outcome 2: Improved rights-based and shock responsive social systems.

The **Expected Outputs** are:

- 1.1) Contributing to Outcome 1: Eased financing for social public services [contribution to payments of salaries of civil servants (CSP), social allowances for vulnerable families (CTP); referral costs to East Jerusalem Hospitals (EJH); purchase of COVID-19 vaccines];
- 2.1) Contributing to Outcome 2: Enhanced administrative and technical capacity of the Palestinian Authority institutions;
- 2.2) Contributing to Outcome 2: Improved coordination with government, development partners and CSOs for enhanced policy dialogue at global and sector level;
- 2.3) Contributing to Outcome 2: Public oversight towards reforms implementation.

#### 3.2. Indicative Activities

The **indicative activities** are as follows:

##### Activities related to **Output 1.1 - Eased financing for social public services**

**Activity 1 Civil Servants and Pensioners (CSP):** This activity complements Palestinian Authority resources to maintain the functioning of the administration effectively under its control and thus contributing to the payment of salaries and pensions for around 55,000 PA eligible civil servants and pensioners, namely in the health, social protection, education and justice sectors, representing around 5% of the total annual PA CSP

payroll payments<sup>8</sup>. The annual allocation is disbursed according to a timetable agreed upon with the Palestinian Authority and taking into consideration the results of the incentive tranche indicators.

**Activity 2: Cash Transfer Programme (CTP):** PEGASE will contribute to quarterly CTP payments to an average of the 75,000 PEGASE presently eligible families (almost 80% of which in Gaza) out of the total number of 115,000 families registered in the Ministry CTP database.

**Activity 3: East Jerusalem Hospitals (EJH):** PEGASE will support the Palestinian Authority with a financial contribution to partially cover the outstanding invoices of medical referrals to East Jerusalem hospitals.

**Activity 4: COVID-19 vaccination campaign<sup>9</sup>:** The EU will support the PA to secure COVID-19 vaccines to the Palestinian population in West Bank and Gaza, aiming to ensure equitable access to vaccines as part of the global efforts to end the pandemic and save lives. In addition, this support will mitigate the impact of the pandemic on Palestinian economy and social life. This activity will consist in reimbursing expenditures incurred by the Ministry of Health for the supply and administration of EMA certified vaccines, in line with the approved vaccination plan<sup>10</sup>. The Commission will define eligibility conditions in a Memorandum of Understanding to be signed with the Palestinian Authority, including retroactivity of costs as of 23 February 2021. The alignment of the distribution with the PA approved vaccination plan will be monitored by EUREP and be part of its policy dialogue with the Ministry of Health/Ministry of Finance.

#### **Safeguarding measures: audit, verification, monitoring, evaluation, screening and IT support of PEGASE DFS programmes**

High standards of control will be maintained through a well-established safeguards system. Such system includes audits (ex-ante and ex post), verification, control, monitoring, evaluation, screening and IT systems enabling the tracking of beneficiaries against sanction lists. In addition, a pool of sector experts will be contracted to support with the assessment of the disbursement indicators under the incentive based component of CSP.

#### **Activities related to Output 2.1 - Enhanced administrative and technical capacity of the PA institutions**

Outputs produced in terms of capacity development through this Action are complemented by substantial support provided by former PEGASE ADs.<sup>11</sup> Proposed support in this Action is the following:

**Activity 1: Capacity development of Palestinian Authority institutions through twinning activities, tentatively in the area of fight against corruption and monetary affairs.** It could tentatively target support to (i) the Palestinian Anti-Corruption Commission on integrity in the civil service (such as assets declarations or conflict of interests); and (ii) support to Palestinian Monetary Authority (PMA) in strengthening its prudential supervision and regulatory role and/or enhancing PMA's responding capacity to a number of selected challenges (such as correspondent banking, financial inclusion or use of financial technologies in banking sector).

**Activity 2: Support to the Office of the Quartet** in facilitating negotiations between the Palestinian Authority and Israel on fiscal, trade, security, energy and water files in view of the preservation of the Oslo

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<sup>8</sup> The percentage has been exceptionally higher than 10% in 2020 due to the fiscal crisis and the only partial payments of salaries.

<sup>9</sup> Any leftovers as of end 2022 will be added to the 2023 EJH component.

<sup>10</sup> This activity will be implemented based on the established PEGASE DFS system of safeguards following the amendment of the relevant ex-ante and ex-post audit reports and signature of a specific Memorandum of Understanding with the PA. The amount will be disbursed based on the reimbursement of paid invoices for EMA certified vaccines. The alignment of the distribution with the PA approved vaccination plan will be monitored through extractions of relevant data from the database put in place by the MoH.

<sup>11</sup> These interventions concern the PAR programme with the OECD, about to be signed, the ongoing support to the Office of the Quartet, the PFM focused programme with the World Bank, the contract signed with ILO to support the MoSD, a contract signed to support the MoSD in the area of monitoring and evaluation, as well as the ongoing twinings and those to be signed.

framework as well as fostering the Palestinian fiscal sovereignty and prospects for achieving its key development objectives but also aspirations for a viable and independent Palestinian state.

**Activity 3: Launch of a Tax Administration Assessment Tool (TADAT) exercise<sup>12</sup>** to help the Palestinian Authority to identify areas of work to improve domestic revenue mobilisation, also in view of reducing dependence on clearance revenues.

### **Activities related to Output 2.2 - Improved coordination with government, development partners and CSOs for enhanced policy dialogue at global and sector level**

The PEGASE system has already contributed to a coordinated support to reforms of the Palestinian Authority and can be used as a leverage under the EJS Result Oriented Framework (ROF) policy dialogue process. Regular meetings are held with the Ministry of Finance, the PMO and the relevant line Ministries, the involvement of other bilateral donors in support to the three windows (in the last few years the United Kingdom and Netherlands for CSP; Ireland and Spain for CTP, Italy and Finland for EJH); the organisation of PEGASE interest group meetings, involving also non-European partners, besides the usual Heads of Cooperation meetings organised by the EUREP at European level; the Local Aid Coordination (LAC) meetings organised by the Palestinian Authority and the sector working groups.

The strengthened coordination; the direct financial support provided, also making the disbursement of part of the CSP funds conditional upon the achievement of certain policy measures and targets set in agreement with the authorities; the technical assistance provided; the enhanced governance system of the programme, with the setting up of a Steering Committee including the PMO and the relevant line Ministries involved in the reform process, along with the policy dialogue already in place though the ROF system will also contribute to strengthen the policy dialogue. This objective will also be fed through the implementation of a system of public oversight planned under Output 2.3. To be noticed that this output has no budgetary implications.

### **Activities related to Output 2.3 - Public oversight towards reforms implementation**

**Activity 1: CSO oversight system:** It is foreseen to implement the activity through a direct contract with a NGO specialised in the area of integrity and governance. The idea is to enhance monitoring of the reform process with a civil society umbrella organisation to assess the outcomes of policy reforms, come up with a perception index on reform progress, issue policy recommendations and disseminating results on programme outcomes. It will also empower non-governmental organisations to keep the authorities accountable for the reform promises made, and increase CSOs oversight capacity and role in matters related to formulation and budgeting of public policies.

## **3.3. Mainstreaming**

### **Environmental Protection, Climate Change and Biodiversity**

**Outcomes of the Environmental Impact Assessment (EIA) screening** (relevant for projects and/or specific interventions within a project)

The EIA screening classified the action as Category C (no need for further assessment).

**Outcome of the Climate Risk Assessment (CRA) screening** (relevant for projects and/or specific interventions within a project)

The CRA screening concluded that this action is no or low risk (no need for further assessment).

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<sup>12</sup> The assessment aims at identifying weakness in the fiscal system, at revenue side, and potential areas of reforms. See <https://www.tadat.org/>

No further action was required as the Action is primarily centred on the governance of social services provision.

There are limited opportunities regarding environment, biodiversity and climate change in the sectors of intervention. Still, the programme aims at making the most of these opportunities, particularly in the framework of the above mentioned PEGASE Incentives Mechanism – some disbursements are linked to the achievement of reform objectives jointly selected with the Palestinian Authority – where two sectors out of three target climate change and adaptation measures in the energy (renewable energy and decrease of losses) and water (re-use and decrease of losses) sectors. Over the medium term, it is expected that policy dialogue with the institutional counterparts will help bring green budgeting to the fore of the discussions. Advocacy will be carried out to have this aspect integrated in the PFM strategy.

### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that in line with the priorities of the EU Gender Action Plan III 2021-2025 (GAP),<sup>13</sup> PEGASE will have direct or indirect activities on: a) Freedom from all forms of gender-based violence, b) Promotion of sexual and reproductive health and rights, c) Strengthening of economic and social rights and empowerment of women and girls, d) Advancement of participation and leadership.

From a gender perspective, PFM is one of the most important means of achieving sustainable development goals, human rights, the principles of democracy, transparency and accountability. The PEFA recognized this and in January 2020 issued supplementary indicators for monitoring public spending and gender-responsive financial accountability. Although the Ministry of Finance is aware that not all indicators can be applied at this time because there is insufficient progress in programme budget, it is committed to gradually introducing procedures that will enable it to make progress in these indicators. The Ministry of Finance will work to increase the technical capacity in the various directorates within the Ministry and in the budget units of the ministries to ensure the implementation of this commitment.

### **Human Rights**

The proposed Action is in line with the EU Action Plan on Human Rights and Democracy (2020-2024). The Action Plan has five lines of action: a) Protecting and empowering individuals; b) Building resilient, inclusive and democratic societies; c) Promoting a global system for Human Rights and Democracy; d) Harnessing opportunities and addressing challenges posed by the use of new technologies; e) Delivering by working together. PEGASE contributes directly and indirectly to all these priorities.

### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the Action acknowledges the difficulties of persons with disabilities (PwDs) to access social services. The COVID-19 crisis worsened the situation as the lockdown limited further movement. The Action should identify bottlenecks and facilitate access to social services from PwDs.

### **Democracy**

This Action aims at supporting democratic governance, through promoting the principles of transparency, participation and accountability. This could be enhanced by increasing the public oversight and engagement of the civil society in monitoring the reform process and monitoring the incentive-based tranche. Early consultation with several civil society organisations were organised for the design of the Action and it is proposed to empower an NGO for an external oversight of the reform process.

### **Conflict sensitivity, peace and resilience**

As mentioned above, under NDICI, considering the context of conflict and violence in the oPt, a conflict analysis is required. The process already started in February 2021 by bringing together various EU actors and

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<sup>13</sup> JOIN (2020) 17 final.

other European Development Partners. In 2020, emphasis was given to the operationalisation of the Humanitarian-Development-Peace nexus aiming to improve collaboration, coherence and complementarity among various stakeholders. Relevant sectors for PEGASE, social assistance and health, among others, were selected as pilot areas. A proper conflict analysis has been launched in July 2021.

## Disaster Risk Reduction

N/A

## Other considerations if relevant

The Action depends on the Palestinian Authority mainstreaming strategies and policies that requires enhancement to align to global commitments and international conventions signed by the PA. In particular, gender, youth and climate change are key mainstreaming issues that are also included in the EJS under the lead of Italy for Gender, Denmark for Youth and Sweden for environment and climate change. In terms of monitoring, the proposed Action will work with relevant institutions to improve the disaggregation of data and statistics by sex, gender and age, so far partially available at PCBS.

## 3.4. Risks and Lessons Learned

Category <sup>14</sup>	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
3	Risk 1. Failure of the reconciliation process and/or a deterioration of the already tense situation in the West Bank and Gaza could increase human rights violations by Israel, PA and the de facto authority in Gaza in the attempt to keep the situation under control.	H	M	Diplomatic engagement backed by financial support to enhance the perspectives of elections and the reintegration of Gaza in the Palestinian public administration.
1	Risk 2. The economic and fiscal situation further deteriorates.	H	M	Tight budget monitoring and high level mediation efforts to settle the issue of clearance revenues. Further engagement on Domestic Revenue Mobilisation, Commitment Control system and Debt management, and accessible budget performance reporting.
3	Risk 3. Suspension of security cooperation between the PA/Israel.	M	M	Development partners (DP) advocacy activities with Israel and the PA. Support to Office of the Quartet.
2	Risk 4. Persistent impact of the COVID-19 crisis.	H	H	Address financial sustainability of health and social protection systems. Support in the vaccination campaign. Support the recovery of the economy.
2	Risk 5. Utilisation of PEGASE funds to finance terrorism.	L	H	This risk is very much limited by the strong safeguard measures that have been put in place to track the utilisation of funds.

<sup>14</sup> The risk (category) can be related 1-to the external environment; 2-to planning, processes and systems; 3-to people and the organisation; 4-to legality and regularity aspects; 5-to communication and information

3	Risk 6. Short-lived cease fire following the conflict of May 2021.	M	M	Reengage in a political framework with all parties leading to address the root causes of the conflict.
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### Lessons Learned:

The external PEGASE evaluation covering the period 2016-2017<sup>15</sup> concluded that PEGASE is a ‘robust, trusted, effective and efficient assistance delivery tool. It is a catalyst for attracting other Development Partners (DP) contributions and is considered as a lifesaver by the Palestinian Authority.’ Thanks to PEGASE, the EU continued to be perceived as the most reliable and predictable partner of the PA, as also confirmed by the European Joint Strategy Mid-term review, finalised in 2020.<sup>16</sup>

The programme is using country systems that can be scaled up and adapted at time of crisis, as for COVID-19. PEGASE – with EU and EU MS funding - has been responsive to the PA fiscal crisis by increasing funding through the DFS for the payment of social allowances or of the arrears of the cost of referrals to the six East Jerusalem Hospitals by about 20%. Over the period 2018-2020, PEGASE CSP support represented around 5% of total expenditures for salaries, wages and pensions. In the health sector, PEGASE support represented nearly 5% of total expenditures for salaries, pensions and referrals; in social development, PEGASE support accounted for 6% of the payroll of the Ministry of Social Development and one third of all CTP transfers. This allows the Palestinian Authority to strengthen its shock responsiveness in social sectors in line with the humanitarian-development nexus.

The payment schedule, jointly agreed upon with the Ministry of Finance, represents an important factor in ensuring predictability of disbursements for the Partner country. The incentive-based mechanism presents an element of uncertainty (timing and actual disbursement).

Performance of the incentive-based mechanism, introduced in 2018 following recommendations from the European Court of Auditors, has been gradually improving. Although the specificities of the Palestinian context, as an occupied territory, with high dependence of the budget on irregular clearance revenues from Israel, has at times proven uncondusive to execute reforms as planned, all in all, the level of implementation of reforms has been reasonably good. Still, the policy dialogue, though improved, was not sufficiently structured, for it lacks a proper governance platform involving the different line Ministries to ensure commitment and voice, and a proper coordinator. Furthermore, many indicators have still been of a process nature, without a clear sense of the final goal, and therefore of the outcomes to achieve.

The Mid-term review of the EJS confirmed its alignment with the NDP, while noticing that “*convergence between the development interventions and the political dimension of protecting the viability of the two-state solution could be strengthened*”.

Past experience shows elements that need to be improved, such as:

- a short term focus on reforms, inevitably focused on process indicators;
- a not sufficiently structured monitoring, oversighting and reporting system;
- an insufficient link and alignment with the ROF process;
- the interest of accompanying the DFS incentive based mechanism with technical support, in view of improving the policy dialogue and create more constructive partnerships.

All the elements above will be addressed and improved by the design of the current AD.

<sup>15</sup> [https://eeas.europa.eu/delegations/palestine-occupied-palestinian-territory-west-bank-and-gaza-strip/55765/evaluation-20162017-pegase-direct-financial-support-palestinian-authority\\_en](https://eeas.europa.eu/delegations/palestine-occupied-palestinian-territory-west-bank-and-gaza-strip/55765/evaluation-20162017-pegase-direct-financial-support-palestinian-authority_en)

<sup>16</sup> <https://europa.eu/capacity4dev/file/106475/download?token=bl8kx4Tm>

### **3.5. Intervention Logic**

The underlying intervention logic for this action is that the medium to long term endeavour to be pursued by the Government is supported by development partners, in line with national strategies. In the perspective of keeping the viability of the two-state solution, the programme aims at strengthening national institutions supporting the duty bearer to fulfil its obligation, in particular improving government effectiveness and efficiency, enhancing inclusive, transparent policy-making and democratic governance, reducing poverty, and increasing the provision of essential social services for vulnerable people.

By ensuring systematic and largely predictable contributions to the Palestinian Authority's recurrent expenditures through the PEGASE DFS mechanism, the EU is supporting the Palestinian Authority fiscal resilience in the PEGASE targeted sectors, while at the same time linking an increasing percentage of the disbursements to the achievement of mutually agreed reforms.

The establishment of a well-functioning and modern public administration is a pre-requisite to achieve national development outcomes, in particular in priority sectors such as health, education and social protection. It is expected that a modernised and digitalised public administration can foster inclusive public policy-making by ensuring a rights-based approach and taking account of environmental and climate impact. Furthermore, the programme will focus on PFM reforms initiated by the Palestinian Authority, as a fundamental cross sectoral way to improve the governance system, and a more sustainable social services delivery.

The chain of results, as reflected in the annexed graph, should be considered on the basis of a long term perspective.



### 3.6. Indicative Logical Framework Matrix

	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Baselines (incl. reference year)	Targets (incl. reference year)	Sources of data	Assumptions
<b>Impact (Overall Objective)</b>	Contribute to democratic governance, effective and accountable institutions as well as improved well-being of the Palestinian population	SDG 1 **SDG 1.2.1/EURF/EJS ROF. Proportion of population living below the national poverty line, by sex and age	SDG1: 2017 Palestinian Expenditure and Consumption Survey (PECS). Extreme poverty 16.8% (5.8% Westbank, 33.7% Gaza) National 29.2% (13.9% Westbank, 53% Gaza).By sex: 28.8% males, 29.7% females. By age: 0-9:31%, 10-17: 29.7%, 18-19: 27.5%, 20-29: 30.2%, 30-39: 29.9%, 40-49: 25.7%, 50-59: 25.2, 60+:26.5%	2030: 0 extreme poverty (global target) 2024 milestone: see MoSD (Next PECS in 2022)	PCBS	<i>Not applicable</i>
		SDG 3 3.8.2 Proportion of population with large household expenditures on health more than 10% and more than 25% of the total expenditures	SDG3: (PECS 2017) 9% (household expenditures on health more than 10% of total expenditures) 1.5% (household expenditures on health more than 25% of total expenditures)	2030: 3% 2024 milestone: (Next PECS in 2022)	PCBS	
		<i>Governance effectiveness Index</i>	2019 : 23.08	2023: 27	WB – WGI	
		<i>Voice and Accountability index</i>	2019 : 21.18	2023: 26	WB – WGI	
	1. Improved access to social public services for all	1.1 (ROF) % of deep poor families receiving social	1.1 2019:		1.1 MoSDS/PCBS	- The PA remains

	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Baselines (incl. reference year)	Targets (incl. reference year)	Sources of data	Assumptions
Outcomes (Specific Objectives)		allowances under the Cash Transfer Programme, disaggregated by sex and age (in West Bank and Gaza).	72% of total deep poor families targeted 108,844 families registered in 2018 on the CTP: 92,570 with deep poverty scores while total number of deep poor families are 127,048 (PCBS 2017). 45,400 female-headed households, 19,000 households headed by People with Disabilities, 37,099 elderly-headed households 71,659 in Gaza, 37,185 in West Bank	1.1 To be defined at project level		committed to NDP implementation and sector reforms plan - The European Development Partners remain committed to EJS 2021-2024 in support to the NDP
		1.2 Number of patients disaggregated by sex and region referred to East Jerusalem Hospitals for receiving needed specialized health care services	1.2. 2019: 22,779	1.2 $\geq 23,000$	1.2 Annually -MoH data on referrals	
		1.3 % of people vaccinated for COVID-19 in line with vaccination plan	1.3: NA	1.3: $>95\%$	1.3 MoH data base for rollout vaccination plan	
	2. Improved inclusiveness, effectiveness, efficiency and transparency in policy making and budgeting	2.1 Assessment on level and quality of implementation of reform agenda supported by PEGASE	2.1 No external assessment	2.1 Good level of implementation of supported reform agenda	2.1 AMAN report	
		2.2 Level of adequacy of the regulatory framework for an effective public consultation process	2.2 Absence of an official, participatory, evidence-based system for policy making at the centre of government	2.2 A regulation is in place that sets out procedures for public consultation (2023)	2.2 Cabinet Secretariat/PMO/PCBS	

	<b>Results chain: Main expected results (maximum 10)</b>	<b>Indicators (at least one indicator per expected result)</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
		2.3 Presence of the oPt in the Open Budget Index	2.3 oPt not covered	2.3 2024: oPt covered	2.3 International Budget Partnership's survey	
<b>Induced outputs</b>	1.1. Timely and regular payments of salaries and pensions, social allowances and referrals costs to East Jerusalem Hospitals are made by the PA	1.1.1 Level of regularity of monthly payment of salaries and pensions	1.1.1 Irregular and often delayed payments of salaries and pensions as a result of fiscal crises	1.1.1 2021: 12 regular and timely payments of salaries and pensions		Smooth implementation of Israel-PA coordination
		1.1.2 % of annual budget allocated to CTP actually executed	1.1.2 2020 budget execution of CTP : 84%	1.1.2 2021: 100%		
		1.1.3 Periodicity of advance payments of the PA to EJH	1.1.3 Irregular payments	1.1.3 Systematic monthly advance payment to EJH		
	2.1. Strengthened PFM systems and sector budgeting	2.1.1 Quality of the MoF Citizen budget produced	2.1.1 Citizen budget produced in the form of a video (2020)	2.1.1 Improved citizen budget produced (2021)	MoF Reports / Audit Reports / EAMR Report	The PA remains committed to the implementation of sector strategies
		2.1.2 Availability of Pre-Budget statement	2.1.2 No pre-budget statement	2.2.2 – Pre-Budget statement issued (2022)	MoF Reports / Audit Reports / EAMR Report	
		2.1.3 % of procurements published in the single portal	2.1.3 60%	2.1.3 70%	MoF Reports / Audit Reports / EAMR Report	
		2.1.4 Primary government expenditure as % of original approved budget (global, health, social development)	2.1.4 81% (2020, cash basis)	2.1.4 85% (cash basis)	MoF Reports / Audit Reports / EAMR Report	
	2.2. Strengthened organisation/functions of public service sector	2.2.1 Status of PAR strategy	2.2.1 No PAR strategy	2.2.1 PAR strategy adopted (2023)	2.2.1 Official Gazette	The PA remains committed to its plans for improving service delivery
		2.2.2 N. of pilot administrations with clear mandates and organisations	2.2.2 0	2.2.2: 5 (2024)	2.2.2 OECD Report	
		2.2.3 Status of Modernised Civil Service Law	2.2.3 Civil Service Law drafted	2.2.3 New Civil Service Law approved. (2022)	2.2.3 Official Gazette	

	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Baselines (incl. reference year)	Targets (incl. reference year)	Sources of data	Assumptions
		2.2.4 Status of the strategic framework on public administration reform, covering at least service delivery, is available	2.2.4 Lack of strategic framework for Public Administration reform	2.2.4 A strategic framework with clear objectives on improving service delivery, including digital transformation in service delivery, is available (2023)		
		2.2.5 Status of National Water Company	2.2.5 Non existent	2.2.5: Company in place (2022)	2.2.5 Official Gazette	
		2.2.6 Status of National Natural Gas Company	2.2.6 Non existent	2.2.6: Company set up (2022)	2.2.6 Official Gazette	
	2.3. Improved public service delivery.	2.3.1 Level of clarity of government-wide objectives for improving service delivery as part of the strategic framework on public administration reform, and including digital plans for transformation of service delivery	2.3.1 Lack of strategic framework for Public Administration reform	2.3.1 Clear objectives on improving service delivery as part of the strategic framework on PAR, including digital transformation in service delivery	PMO/General Personnel Council	
		2.3.2 Level of installed capacity of Renewable Energy in WB and Gaza	2.3.2: 100 MW	2.3.2: 170 MW (2023)	PENRA	
		2.3.3 Amount of Reused Treated Wastewater in Tubas and Aroub	2.3.3: 2020: 0	2.3.3: Tubas : 1100m3/day Aroub: 1100 m3 / Day (2023)	PWA	
		2.3.4 Percentage of population above 16 having got vaccinated	2.3.4: 0	2.3.4: 100% (2022)	MoH	
	2.4. Improved rights-based and shock responsive social systems	2.4.1 Status of CTP window for elderly and PwD 2.4.2 Status of MoSD M&E system	2.4.1 Non existent  2.4.2 Fragmented	2.4.1 Designed in 2021 and operational in 2022	2.4.1 MoSD action plan and budget, MoSD Strategic Result Framework	

	<b>Results chain: Main expected results (maximum 10)</b>	<b>Indicators (at least one indicator per expected result)</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
		2.4.3. Availability of a national road map identifying priority areas with particular attention to health financing for strengthening the health system to achieve progress towards Universal Health Coverage	2.4.3 Non existent	2.4.2 Established in 2021 and operational in 2022 with annual report available and used for planning  2.4.3 Endorsed by MoH in 2022	2.4.2 Annual report of MoSD 2.4.3 Road map document/WHO reporting on UHC partnership	
<b>Direct Outputs</b>	1.1 Eased financing for social public services (salaries of civil servants, social allowances for vulnerable families; contribution to referral costs to EJH; contribution to purchase of COVID-19 vaccines)	1.1.1 Amount of funding made available through PEGASE CSP 1.1.2 Amount of funding made available through PEGASE CTP 1.1.3 Amount of funding made available through PEGASE EJH 1.1.4 Amount of funding made available for vaccination campaign	1. Payments made as scheduled	1.1.1 Yes: 2021 1.1.2 Yes: 2021 1.1.3 Yes: 2021 1.1.4 Yes: 2022	PEGASE ex-post audit, PEGASE reporting	
	2.1 Enhanced administrative and technical capacity of the PA institutions	2.1.1 Status of monitoring and evaluation (M&E) system in MoSD 2.1.2 % of participants to OECD PAR programme trainings having improved their competences	2.1.1 No M&E system 2.1.2 0 (Programme yet not in place)	2.1.1 Automated M&E system in place at MoSD 2.1.2 – 80% (2024)	2.1.1 MoSD 2.1.2 OECD Report	
	2.2 Improved coordination with government, development partners and CSOs for enhanced policy dialogue at global and sector level	2.2.1 Level of quality (scope and nature) of policy dialogue	2.2.1 Sufficient quality of policy dialogue	2.2.1 Quality of policy dialogue improved, as shown by regularity of dialogue, minutes of meetings with related action plan; % of	2.2.1 External Assistance Monitoring Report (EAMR)/ROF AMAN reports	

	<b>Results chain: Main expected results (maximum 10)</b>	<b>Indicators (at least one indicator per expected result)</b>	<b>Baselines (incl. reference year)</b>	<b>Targets (incl. reference year)</b>	<b>Sources of data</b>	<b>Assumptions</b>
				recommendations implemented		
		2.2.2 N. of PEGASE SC meetings held with related Action plan approved 2.2.3 % of performance indicators for disbursement met	2.2.2 0 (2020) 2.2.3 62%	2.2.2 – 2 SC held as planned in 2021 2.2.3 80% (2021)	2.2 EAMR report	
	2.3 Public oversight towards reforms implementation	2.3.1 Status of a system of external public oversight of the reform implementation	2.3.1 No organisation in place specifically responsible for this function	2.3.1 A contract is issued to entrust an NGO for the public oversight ( 2021)	2.3.1 EAMR/ROF AMAN reports	

## **4. IMPLEMENTATION ARRANGEMENTS**

### **4.1. Financing Agreement**

In order to implement this action, it is envisaged to conclude a financing agreement with the partner country.

### **4.2. Indicative Implementation Period**

The indicative operational implementation period of this action, during which the activities described in section 3.1 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this financing Decision and the relevant contracts and agreements.

### **4.3. Implementation Modalities**

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>17</sup>.

#### **4.3.1. Direct Management (Grants)**

##### **4.3.1.1. Grants**

###### **a) Purpose of the grant(s)**

The grant will contribute to achieve Outcome 2 (Output 2.3).

###### **b) Type of applicants targeted**

The type of applicant is a Palestinian Civil Society Organisation (CSO) / NGO.

###### **c) Justification of a direct grant**

Enabling a Palestinian civil society organisation having a proven capacity and expertise in various sectors, and particularly in the field of public sector integrity and transparency of public funds, participatory policy making and budgeting and overall steering and assessment of governance reforms, to carry out an external assessment of the reform progress in the areas covered by PEGASE.

Under the responsibility of the Commission's authorising officer responsible, the grant may be directly awarded without a call for proposals to a Palestinian CSO based on the following criteria: i) specialised thematic expertise and experience in the promotion of transparency and accountability in the Palestinian society.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because the action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation as per provision of Article 195(f) of the Financial Regulation.

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<sup>17</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu) Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

#### 4.3.1.2. Twinning grant

##### a) Purpose of the grant(s)

Grants resulting from twinning procedure will contribute to achieve Outcome 2 (Output 2.1).

##### b) Type of applicants targeted

The twinning procedure will be applied, following a call for expression of interest, to select peer Member State administration or their mandated bodies able to ensure strengthening of capacities of peer local institutions.

#### 4.3.2. Direct Management (Procurement)

Direct management (Procurement) will contribute to achieve Outcomes 1 and 2 (Output 1.1 and Output 2.1).

#### 4.3.3. Direct Financial Support - PEGASE

Direct management via direct financial support will contribute to achieve Outcome 1 (Output 1.1).

Direct management via direct financial support will be applied for all PEGASE DFS programmes (Eased financing for social public services - CSP, CTP, EJH, COVID-19, vaccination campaign). It will be implemented by the Commission through the Office of the European Union Representative to the West Bank and Gaza Strip (EUREP), located in East Jerusalem, in close co-ordination with the Palestinian Authority and EU Member States. Disbursements for DFS activities will be made by the Commission through specific sub-accounts of the Palestinian Authority's Single-Treasury Account, following eligibility checks and verification as well as control procedures by external experts and international audit firms.

Under CSP, it is intended to continue the shift from previous unconditional support to linking part of the disbursements to the achievement of certain benchmarks agreed with the Palestinian Authority in the framework of PA-led reforms.

The specific conditions that may be used for the incentive-based tranche of 2021 will be the achievements of established benchmarks in the following indicative areas:

- Public Finance Management reforms;
- Water reform and sustainability;
- Energy reform and sustainability.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme and will be detailed, in principle, in the corresponding Financing Agreement. The EU and the PA may suggest the inclusion of new areas.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR million).

Tranches (EUR million /Years) <sup>18</sup>		2022	Total
Regular Payment Tranche		35	35
Incentive-Based Tranche		20	20
<b>Total</b>		<b>55</b>	<b>55</b>

<sup>18</sup> The annual timetable of the tranches will be agreed upon with the PA every year. There will be 3-4 fixed tranches and 1 variable tranche every year.



Note that any change to the targets should be agreed ex-ante at the latest by the end of the first quarter of the assessed year. The agreed changes to the targets and indicators shall be agreed in advance and may be authorised in writing (either through a formal amendment to the financing agreement or an exchange of letters).

In exceptional and/or duly justified cases, e.g. where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant, an incentive-based tranche indicator may be waived or neutralised. While submitting a request of transfers based on the agreed performance indicators, the authorities will have to present an evidence-based report demonstrating why and how the targets have been met. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year. It could also be decided to reassess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of these provisions must be requested by the Prime Minister to EU Representative, and authorised by the latter through an exchange of letters between the two parties.

#### **4.3.4. Indirect Management with a pillar-assessed entity**

A part of this action may be implemented in indirect management with the United Nations Office for Project Services (UNOPS), in support to the Office of the Quartet (OoQ). This implementation will contribute to achieve outcome 1 (Output 2.1). It entails undertaking actions towards improved dialogue on and resolution of fiscal leakages issue between the Government of Israel (GoI) and PA based on the Paris Protocol (economic) agreements, in view of contributing to predictability and stability of the Palestinian Authority's budget as a main source of financing of the its development objectives.

UNOPS has been selected by the Commission's services using the following criteria:

- i) Access to and strong relationships with both parties at the technical, senior and political levels around fiscal leakages, rule of law, water and energy and other Paris Protocol matters;
- ii) In-depth sectoral expertise, alongside extensive knowledge of the development of these sectors in the Israeli/Palestinian context;
- iii) A presence in East Jerusalem, Ramallah and Gaza.

Due to its specific mandate as support to the Office of the Quartet, UNOPS fulfils these criteria.

The international organisation identified above is currently undergoing an ex-ante assessment of its systems and procedures. Based on its compliance with the conditions in force at the time previous other indirect management actions were awarded to the organisation and based on a long-lasting problem-free cooperation, the international organisation can also now implement this action under indirect management, pending the finalisation of the ex-ante assessment, and, where necessary, subject to appropriate supervisory measures in accordance with Article 154(5) of the Financial Regulation. In case the envisaged entity needed to be replaced, the Commission's services may select another replacement entity using the same criteria.

#### **4.4. Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other

duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.5. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>
<b>Output 1.1 composed of:</b>	<b>138 850 000</b>
Direct Financial Support (direct management) - Civil Servants and Pensioners (CSP) – cf. section 4.3.3	55 000 000
Direct Financial Support (direct management) - the Cash Transfer Programme (CTP) - cf. section 4.3.3.	50 000 000
Direct Financial Support (direct management) - –East Jerusalem Hospitals (EJH) cf. section 4.3.3.	13 000 000
Direct Financial Support (direct management) - Support to COVID-19 vaccination campaign - cf. section 4.3.3.	20 000 000
Procurement (direct management) – Safeguards measures - cf. section 4.3.2	850 000
<b>Output 2.1 composed of:</b>	<b>6 200 000</b>
Capacity development of Palestinian Authority institutions through twinning activities, tentatively in the area of fight against corruption and monetary affairs - Grants Twinning – cf. section 4.3.1	4 000 000
Indirect management with UNOPS Support to the Office of the Quartet (OoQ)– cf. section 4.3.4	2 000 000
Procurement cf. section 03 Tax Administration Assessment Tool (TADAT) cf. section 4.3.2.	200 000
<b>Output 2.3 composed of:</b>	<b>300 000</b>
Grants - CSO oversight system – cf. section 4.3.1	300 000
<b>Grants – total envelope under section</b>	<b>142 300 000</b>
<b>Procurements – total envelope under section</b>	<b>1 050 000</b>
<b>Totals</b>	<b>145 350 000</b>

#### 4.6. Organisational Set-up and Responsibilities

On the Palestinian Authority side, the leading partners in the implementation of the PEGASE DFS programme will be the Ministry of Finance in the execution of the payments to final beneficiaries, the Ministry of Social Development and the Ministry of Health.

All contracts and payments are made by the Commission on behalf of the Beneficiary.

The Action will be implemented by the EU through the EUREP; EUREP will be in charge of the management and the implementation of the operation, in close co-ordination with other donors and international organisations, including for the following:

- liaising with the Ministry of Finance concerning eligible expenditures;
- organising and managing the process of validation, control, payment and audit; and,
- being responsible for paying contributions or for supporting payments to be made by individual donors.

A Project Steering Committee will be set up to ensure overall guidance and coordination among the different actors involved (indicatively the Ministry of Finance, EUREP, PMO, the Ministry of Social Development, the Ministry of Health, PENRA, PWA). Others might be invited as appropriate. It will meet at least twice a year.

The EU might engage in discussions around the planned reforms and their implementation within existing (Local Aid Coordination Secretariat - LACs, ROF, PEGASE interest group) or ad hoc coordination platforms, whenever deemed necessary, involving relevant development partners (World Bank, IMF, Foreign, Commonwealth & Development Office - FCDO, Denmark, France, International Labour Organization, World Health Organization, and others).

Financial experts and qualified auditors will work for the programme and will be complemented by other experts as required, in particular in the fields of IT and screening against international sanctions. Experts in the sectors selected in the framework of the incentive mechanism to assess targets as well as grantees in charge to monitor the reform process will also be part of the programme.

The Ministry of Finance will provide all necessary information and documentation to enable EUREP to implement the various components while ensuring the highest level of verification and control over the use of resources. The Ministry of Finance will enable EU auditors and experts to have access to the necessary documents and information to verify the implementation of the incentive-based tranche indicators. It is expected that the full cooperation from the PA counterparts will be extended to the monitors of the reform process.

Documents enabling the verification of the implementation of the proposed reforms, including those triggering the disbursement of the incentive based part, will have to be supplied in English.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

## **5. PERFORMANCE MEASUREMENT**

### **5.1. Monitoring and Reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

A comprehensive system of monitoring, control and audit will continue to be applied in the framework of the implementation of PEGASE DFS programmes, to provide assurance over the use of funds, and the efficient and effective provision of support to the Palestinian Authority and the population, while fully protecting donor interest.

SDGs indicators and, if applicable, any jointly agreed indicators as, for instance, per the future Joint Programming document should be taken into account.

Reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

## **5.2. Evaluation**

Having regard to the nature of the action, a mid-term evaluation will not be carried out for this action or its components. An evaluation of the PEGASE DFS programmes for the period 2018-2019 via independent consultants has started in January 2021. No other new evaluation is foreseen in 2021.

In case an evaluation is not planned, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

## **5.3. Audit and Verifications**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

# **6. COMMUNICATION AND VISIBILITY**

Communication and visibility is a contractual obligation for all entities implementing EU-funded external actions, to advertise the European Union's support for their work to the relevant audiences.

To that end they must comply with the instructions given in the [\*Communication and Visibility Requirements of 2018\*](#) (or any successor document), notably with regard to the use of the EU emblem and the elaboration of a dedicated communication and visibility plan, to be completed for every action at the start of implementation.

These obligations apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country (for instance, concerning the reforms supported through budget support), contractors, grant beneficiaries or entrusted entities. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and delegation agreements.

Communication and visibility measures may be funded from the amounts allocated to the action. For the purpose of enhancing the visibility of the EU and its contribution to this action, the Commission may sign or enter into joint declarations or statements, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union. Visibility and communication measures should also promote transparency and accountability on the use of funds.

Effectiveness of communication activities on awareness about the action and its objectives as well as on EU funding of the action should be measured.

Implementing partners shall keep the Commission and concerned EU Delegation/Office fully informed of the planning and implementation of specific visibility and communication activities before work starts. Implementing partners will ensure adequate visibility of EU financing and will report on visibility and communication actions as well as the results of the overall action to the relevant monitoring committees.